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Tackling vulnerability to debt. Affordable lending alternatives and financial education: an evidence review

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Abstract:	The pathways to vulnerability to debt and what works to reduce such vulnerability are poorly understood. To address this knowledge gap, we conducted an evidence review. Many low-income borrowers have little alternative but to resort to high interest lending. Developing 'affordable' lending alternatives has been a challenge. Policy-makers have advocated person-centred approaches (e.g. financial education) despite little evidence supporting the efficacy of such behavioural measures. Arguably this has shifted the burden of social responsibility and risk for managing problem debt primarily onto borrowers. While better regulation of the credit industry is needed, ultimately policy-makers need to look beyond market-based solutions.
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Introduction

There has been a rise in indebtedness in recent years, with an estimated 8.3 million people in the United Kingdom (UK) with problem debts (Inman and Treanor, 2017). This represents one-in-six adults who are experiencing a significant financial burden repaying debt or have 'missed payments for bills and/or credit commitments in three or more of the last six months.' (Webb, 2017: no page numbers). It is the most vulnerable consumers who are disproportionately affected by problem debt. Whilst noting that most consumer borrowing can be regarded to some extent as vulnerable, the Financial Conduct Authority (2014: 5) define a vulnerable consumer as 'someone who, due to their personal circumstances, is especially susceptible to detriment' that can 'manifest itself in many ways'. Increasing vulnerability is evident among different cohorts of the population such as young people, renters and workers employed in modern forms of insecure employment associated with the 'gig economy' (Inman and Treanor, 2017).

It is well documented that problem debt is a major risk factor both stemming from and driving a myriad of economic, social and health inequalities (Duygan-Bump and Grant, 2009; McKee et al., 2012; Keese and Schmitz, 2014). There is considerable debate in the literature about what factors cause vulnerable borrowers to become over-indebted. Borrowers themselves are often perceived to be the primary cause of over-indebtedness, which is attributed to factors such as poor personal financial management skills (Jappelli and Padula, 2013) or feckless and profligate spending behaviour (Walker et al., 2015). However, this analysis largely ignores the macroeconomic drivers of problem debt such as the 'noughties' financial crisis and the subsequent austerity driven reductions in welfare spending and other public expenditure, the rise of insecure low paid employment and the historically unprecedented fall in real wage levels (Machin, 2015).

Compounding this further has been the increasing use of easily obtainable short-term high interest loans, especially by low-income borrowers. These so-called payday loans are often advertised to consumers under a multitude of benign sounding branding euphemisms such as 'easy-loans' or 'quick-quid.' Some borrowers are attracted to these products because of the 'ease of access and perceived flexibility' (Cabinet Office, 2015: 6). It is evident that others are compelled to resort to this form of lending as it is the only form of credit they can secure, which provides a financial 'lifeline or a means of maintaining a standard of living' (Gathergood et al., 2014: 2). However, for the borrower, high interest borrowing is intrinsically risky, as missed or delayed payments can quickly inflate repayment costs to unmanageable levels, with loans being 'continually renewed and consolidated' (Cabinet Office, 2015: 6). In turn, this causes borrowers to become trapped in a cycle of persistent and often unserviceable debt, with little immediate prospect of repaying their borrowings (Harris et al., 2009: 63).

Developing affordable lending alternatives to short-term high cost lending has proved to be a major policy challenge. For instance, credit unions and community development finance institutions (CDFIs) often have insufficient credit, capacity or expertise to 'scale up their personal lending activities to offer people on low incomes more affordable alternatives to the products provided by the high cost credit industry' (Cabinet Office, 2015: 4).

While many policy-makers have advocated person-centred measures such as financial education/literacy programmes and widening access to financial advice services, along with reforms to diversify the personal credit market, particularly the expansion of the community lending sector, there is a paucity of evidence supporting the efficacy of such policies. To address this lacuna in the evidence base, we carried out an evidence review, the primary objective of which was to analyse the efficacy of different interventions that aim to address vulnerability to debt. In addition, the evidence review sought to identify the pathways into indebtedness. Based on a synthesis of the available evidence gathered by our review, we assess the factors that are trapping vulnerable borrowers in a cycle of unmanageable debt and offer critical reflections about who and/or what is responsible for this escalating personal debt crisis (Gibbons, 2014) that is blighting the lives of millions of people in the UK.

Methods

We undertook an evidence review which examined the theme of reducing vulnerability to debt. The evidence review was conducted during 2015-16, with an additional 'rapid update review' taking place in 2017.

This review was one of a series of evidence reviews undertaken by the Public Health team within the National Institute of Health Research, Collaboration for Leadership in Applied Health Research and Care North West Coast's (NIHR CLAHRC NWC) Neighbourhood Resilience Programme (NRP). These reviews had two practical applications. First, they were intended to inform the design of local initiatives addressing social determinants of health inequalities being developed and evaluated in nine relatively disadvantaged neighbourhoods across the North West Coast. Secondly, the reviews contributed to building capacity in evidence review methods amongst the local authority personnel who were part of the review team.

Working with NIHR CLAHRC NWC's local authority partners a list of potential topics for evidence reviews relevant to Neighbourhood Resilience Programme was produced. A Delphi-type exercise resulted in three topics being identified for the first batch of reviews. Vulnerability to debt was one of these, with two areas of interest highlighted: payday lending and the role of financial education. The review team was split into two sub-groups each focusing on one of the two sub-topics.

The evidence review approach was informed by a realist perspective (Pawson, 2006). Space precludes an in-depth discussion of the realist approach but briefly, it involves problematising causality to: "unpack the causal model as part of the review process" (Gough 2013: 2). Rather than statistical association, the emphasis is on uncovering underlying mechanisms to illustrate how and why effects are produced in certain contexts and for particular individuals or groups of people. The review question, framed in a realist manner, was: 'what [interventions aimed at reducing vulnerability to debt] works for whom, under what circumstances, how and why' (Wong et al., 2013: 2). Initially, two separate Web of Science searches were conducted to support the focus on two different 'intervention' types. The specific terms used for the Web of Science searches are shown below with the number of initial hits included in brackets.

- 'Payday loan' OR 'Payday lend*' OR 'Short term loan' OR 'Short term lend*' OR 'high interest loan' OR 'high interest lend*' OR 'loan shark' OR 'short term credit' OR 'credogenic' (257).
- ('Financial education' OR 'Financial* litera*' OR 'Financial* Aware*' OR 'Financial* counsel*' OR 'Financial inform*' OR 'Financial vulnerab*' OR 'Over indebtedness' OR 'Economic education' OR 'Economic literacy') AND debt (250).

The titles and abstracts of articles from these initial searches were inspected to determine which to retrieve in full text. A simple inclusion/exclusion decision making tool was developed (Figure 1). Papers evaluating the impact of relevant interventions and those providing information about relevant processes or theories which did not necessarily evaluate specific interventions, were retrieved.

[Figure 1 here]

Although this was not a formal realist review, aspects of the realist approach were adopted. For example, rather than aiming to complete a comprehensive coverage of the literature, the search and synthesis processes sought saturation i.e. including studies 'until new studies cease to provide any fresh data or insights' (Mays et al., 2005: 11). Data extraction and analysis were conducted in parallel and as the analysis progressed, gaps were identified. Further searches were conducted to fill these gaps (See Figure 2 flow diagram).

[Figure 2 here]

A data extraction table was constructed to enable the systematic extraction of information from the papers gathered. Information extracted included: aims, scope, aspect of vulnerability to debt, details of funders, methods, outcomes, impact on inequalities and the authors' conclusions. References which appeared particularly important or likely to offer new arguments or information were also noted.

Thematic analysis of the extracted information drove the iterative search process by revealing gaps in what had been found. For example, material addressing short-term high interest loans was largely from the United States. In addition, although UK credit unions were often mentioned, our searches revealed little in-depth information on the role and impact of these organisations in addressing indebtedness. We therefore decided to include grey literature such as local government, think tank and third sector organisations' reports. These were sourced by snowballing from papers already retrieved, expert recommendation and simple Google searches. Later it became apparent that 'doorstep lenders' were an important category of high interest lenders in the UK, which our original searches had largely missed, so an additional search was conducted using Google Scholar. This kind of iterative search process is typical of realist and realist informed approaches.

Discussion of evidence review findings

Why people get into difficulties with debt and how this impacts on them

The literature revealed considerable discussion about the underlying causes of problem debt. Montgomerie et al (2014a) identify key underlying macroeconomic drivers of debt as two decades of wage stagnation in the UK coupled with financial deregulation. Having no savings is a major driver of indebtedness, especially among the poorest households. Poorer people in both Ireland (O'Loughin and O'Brien, 2007; Gloukoviezoff, 2014) and the UK (Dearden et al., 2010) were found to borrow to meet basic living costs, as well as unexpected expenses and emergencies. They reported social pressure to spend, particularly on children, and difficulty accessing mainstream lenders. Some borrowers seemed to be victims of the pre-financial crash era of 'easy-credit', having been encouraged to borrow with little attempt made by lenders to assess repayment capability. For others, indebtedness occurred when they entered education, training or poorly paid employment.

Some authors refer to the 'normalisation' of debt - a state of mind when borrowers believe struggling with debt is commonplace and consequently they may be less inclined to seek help before they reach a crisis point (Flaherty and Banks, 2013). Kirsch et al (2014) cite experimental evidence that suggests poverty leads people to focus narrowly on certain problems and overlook others such as problem debt. As Dearden et al (2010: 5) observe, 'simply thinking about their financial circumstances was an ongoing cause of stress and the cumulative effect over time had a notable impact on mental health and further indebtedness'. Psychologically, in such circumstances 'overlooking' one's finances may make sense. Those who can rely on their family for financial support if they become over-indebted, may also feel free from such debt induced stress (Szmigin and O'Loughlin, 2009). From a psychology perspective, research suggests that poverty could be capable of impairing cognitive function because the ‘human cognitive system has limited capacity’ and as a result ‘preoccupations with progressive budgetary concerns leave fewer cognitive resources available to guide choice and action’ (Mani et al, 2013: 976). This reduced cognitive capacity can have a detrimental impact on financial decision making among the poor, which in turn perpetuates poverty.

As well as being strongly associated with poor physical and mental health (O’Loughlin and O’Brien, 2007), unmanageable debt causes social problems for individuals, especially in relation to their work and domestic lives. Christians Against Poverty reported that three quarters of their debt advice clients who were in a relationship, stated that their relationship had suffered, including a quarter whose relationships had ended (Allison, 2016). A study by Salter (2014) found financial difficulties had caused people to take time off work, give up work, lose their jobs or they found it harder to secure new employment.

Salter (2014) examined the differential distribution and impact of different types of debt. The study made several recommendations including: changing the official definition of debt to include housing and utilities arrears not just consumer credit; instituting a range of technical and regulatory steps to mitigate the impact of debt (including earlier access to debt advice services); undertaking public awareness campaigns to address the social stigma associated with indebtedness; debt service providers offering personalised provision tailored to the individual. Salter (2014: 10) concludes by arguing that societal understanding of debt needs to be ‘reframed by policy-makers as a socio-emotional phenomenon rather than a financial or legalistic one’.

High interest loans – solution or problem?

Although high interest credit accounts for only about 2.5 per cent of overall UK credit use, its users are most likely to be in the lowest income quintile. For many people, borrowing at high rates of interest seems a pragmatic decision given the lack of affordable and accessible alternatives (Graves, 2003; Shevellar and Marston, 2011; Flaherty and Banks, 2013; Bhutta et al., 2015). Banks do not generally provide the sort of small, short-term loans poorer people typically need at short notice. Furthermore, opening a bank account means risking costly penalty charges for unauthorised overdrafts or failed direct debits (Hartfree and Collard, 2014). Other reasons for using high interest credit include ‘accessibility, reduced bureaucracy, convenience, transparency, simplicity, no credit history is needed and repayments are collected in cash on a weekly basis’ (Gloukoviezoff, 2014: 13).

Payday loans are short duration high interest credit, usually for relatively modest sums, which the consumer commits to repaying in a single payment. There is considerable agreement in the literature that, although payday loans are not a permanent solution, if they are taken out to deal with ‘temporary shocks’ (Bhutta et al., 2015: 4) they can usefully contribute to ‘living a life towards the bottom end of the labour and housing markets' (Shevellar and Marston, 2011: 218). We found little support in the literature for this type of lending to be banned outright. However, when the borrower fails to repay and rolls the loan over, high interest rates mean the loan becomes part of the problem (Melzer, 2011). In both the US (e.g. Flannery and Samolyk, 2005; Kirsch et al., 2014; Skiba, 2014) and the UK (Salter, 2014) repeat borrowing is common. When borrowers can repay quickly they feel the service is useful. For others, often poorer borrowers, rolling over loans, taking out new loans to settle current loans and juggling loans from multiple lenders, leads to serious financial difficulties and stress (Burton, 2010).

Any disagreement in the literature focuses on whether the payday lending business model is dependent on loan rollovers and the extent to which vulnerable lenders are exploited or at fault. Stegman and Faris (2007: 8) found that the payday loan industry in North Carolina benefited greatly from repeat borrowers and that one of the biggest lenders incentivised its staff 'to encourage chronic borrowing by individual patrons'. Caplan (2014: 151) concluded that payday loans 'are designed implicitly or explicitly to take advantage of people who have limited economic capabilities and who are considered economically vulnerable, but … are marketed as a solution for credit-constrained people'. Opposing views associated loan rollover as arising from the borrower's misuse or abuse of the service. However, it is important to note that these were not always impartial observers; they included a law firm with payday lender clients (Kirsch et al., 2014) and a small study part-funded by the United States credit industry's national trade association (Lawrence and Elliehausen, 2008).

The UK payday loan industry more than doubled in size over a three year period from '£900 million in 2008/9 to £2.2 billion in 2011/12' (Salter, 2014: 24); highlighting the significant growth of this sector of the credit industry in recent years. Furthermore, in the UK, high interest credit takes many forms including doorstep lenders (aka home credit), catalogues, company loans, rent-to-own sources and pawnbrokers. A study by Flaherty and Banks (2013) found 12 sources of credit being used across 24 households in the Teesside region (north east England), 16 of which had doorstep loans. Unlike payday loans these are repaid via instalments rather than a single lump sum and some lenders can be flexible about repayment deadlines. Significantly, this form of lending led to the development of personal relationships between borrowers and lenders, as over time doorstep loan agents often became personally known and trusted by the borrowers. One borrower reported that 'her agent sorted things for her and knew not to give her loans requiring payments of more than £30 a week' (Flaherty and Banks, 2013: 223). Although this evidence suggests that doorstep lending is valued by some borrowers, these doorstep loans still involve very high interest rates at an annual percentage rate (APR) of over 1000 per cent. Significantly, the Teesside study (Flaherty and Banks, 2013) showed repayment remained a problem for many. Most of the 24 households were being pursued by debt collectors, 20 were under threat of legal action and two had been evicted. Interviews revealed people who were mostly on benefits were sucked into a spiral of high interest credit to pay for essential items such as food and heating and the purchase of everyday goods like televisions and mobile phones. Credit repayments meant many were surviving well below the poverty line.

Some local authorities such as Derbyshire County Council (2015) have identified high interest loans as problematic, setting their public computers to block access to high interest loan company sites and instead directing enquirers to local Credit Unions. However, there is debate about whether restricting access to payday loans risks driving people into the arms of illegal loan sharks. A ResPublica report, financed by the main payday lending trade association, the Consumer Finance Association, asserts that 'those denied the credit they need will turn to the illegal sector and put themselves at the mercy of the interest charges and collection methods of criminals' (Gathergood et al., 2014: 3). In response, the Centre for Responsible Credit (CRC) describes the report as 'another stage in the CFA-led strategy to defend the payday lending industry by raising fears of a growth in illegal lending arising from supposed over-regulation' (Gibbons, 2014). The CRC point out that, after 2012 when the FCA outlined its forthcoming regulations, payday lending decreased with no apparent increase in illegal lending; on the contrary the number of investigations conducted by the Government's Illegal Moneylending Team dropped sharply. In fact, servicing high interest payday loan debt may itself encourage the use of illegal lenders.

Approaches to tackling problematic debt

Encouraging individual behaviour change – financial education and money management

The literature revealed considerable support for the argument that a lack of financial understanding is not a major driver of debt. Nevertheless, many people do have low levels of financial literacy (Lusardi, 2015) and the most common 'debt intervention' at an individual level is financial education. In a wide-ranging review of the evidence, Gnan et al (2007) classify financial education according to who it primarily seeks to benefit, that is the individual, the functioning of the financial market or wider society. The Organisation for Economic Co-operation and Development (OECD) defines financial education as 'the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being' (Atkinson, 2013: 5). This approach is supported by many governments across the world and some researchers and financial experts (Braunstein and Welch, 2002). From this perspective, financial education is viewed as a preventative approach helping individuals avoid future financial problems by promoting better personal financial management skills such as saving and improved budgeting (Bird et al., 2014). It is argued that financial education is most effective with young people because most habits and attitudes are formed during childhood (Alsemgeest, 2015) when children tend to learn financial competence from their parents' example (Grinstein-Weiss et al., 2011). There are also numerous initiatives targeted at boosting children's financial literacy (Baumann and Hall, 2012; Atkinson and Messy, 2013; Scape Group, 2015), sometimes in partnership with credit unions (ABCUL, 2010; Ayre et al., 2014). Some credit unions also provide financial education for adults (Leeds City Council, 2003; Dayson et al., 2009; Jones, 2013).

Some commentators note that financial education should be tailored to address the different needs and barriers to change that are experienced by certain social groups in society (OECD, 2005; Townley-Jones et al., 2008; Huston, 2010). Goode (2012) found that in relation to over-indebtedness, men were less likely to seek financial advice than women for a variety of reasons including anger and denial, over optimism, lack of self-confidence and social skills, as well as so-called male pride. Li et al (2013) found that older people may be either advantaged or disadvantaged according to the type of financial decision making required. A study by Patel et al., (2012) suggests that if one adult in a household is experiencing debt problems it is more likely that others do, so household level analysis may enable better problem identification and resolution strategies. Somewhat counter-intuitively, financial education providers need to recognise that facing one's financial situation can create anxiety, itself a barrier to learning (Shapiro and Burchell, 2012). Additionally, it is often overlooked that financial advisors and debt counsellors themselves need ongoing financial education (Alsemgeest, 2015).

There is some evidence to suggest that financial education in the form of debt advice can be effective once a borrower begins to experience difficulties. The Money Advice Service (2010: 15) found that those who seek advice 'are 93 per cent more likely to be out of unmanageable debt within a 12-month time-frame than those who have not sought debt advice taking into account other variables'. Another study found that simply monitoring someone's finances, without providing any financial information, impacted positively on their behaviour (Moulton et al., 2015). Clear information at the point of sale can also help. Bertrand and Morse (2011) found that when people at US payday loan stores received information that made them think longer term, they often borrowed less. Although the impact achieved was relatively small (a reduction of 11 per cent in payday loans over four months), the intervention was cheap and easy to implement.

However, there is no consensus in the literature as to whether financial education can lead to sustained behaviour change over the long term (Schuchardt et al., 2009). Evaluations tend to rely on self-reported behaviour change, as monitoring actual behaviour is difficult in practice (Bolton et al., 2011). The apparent success of some interventions may be entirely due to different psychological traits, causing some people to benefit more than others (Fernandes et al., 2014). Selection bias may also be a factor influencing some studies, as those who undertake financial education are already highly motivated to change (Collins, 2013). Ironically, financial education can have negative effects such as individuals becoming financially overconfident and as a result they make worse financial decisions (Willis, 2008). Lee (2013) believes we should evaluate the efficacy of financial literacy on a continuum, allowing for both progression and regression.

To maximise impact on real world financial behaviour it is argued that financial education should go beyond just providing information to address psychological, emotional and cognitive issues (Richins, 2011; Lee, 2013). This would include a critical discussion of why some products are marketed and subsequently purchased for their 'transformational' effects, i.e. capable of changing the purchaser for the better (Braun-LaTour and LaTour, 2005; Yu and Zhu, 2015). In this context, accessing credit functions as a means for an individual to achieve their aspirations (Goode, 2012).

Other approaches try to influence personal behaviour through the provision of practical assistance along with money management support. Some credit unions provide accounts that enable direct rent payments for private tenants (Whyley et al., 2014). Others offer 'jam jar accounts' where the balance can be split into separate jars for spending, saving and bills, and low balance alerts and automated fund transfers are provided, in some cases accompanied by referrals to specialist advice services (Social Finance, 2011). Jam jar accounts have demonstrated some success. The First Dorset Credit Union reported a reduction of £50,000 in rent arrears across 80 individuals (Local Government Association, 2014). However, as long as these accounts are not free to set up, uptake is likely to remain low (Wright, 2013). In an attempt to increase uptake, some housing associations are funding credit union jam jar accounts for their tenants (Brown, 2012).

New forms of debt advice, collective support and action are emerging in the form of 'self-help' digital platforms that draw on experiential learning. Research by Montgomerie et al (2014b) identified how some debtors are making use of peer-to-peer online forums to share their experiences, seek emotional and moral support and exchange information about debt management. The innovative aspect of these forums is that they meld together practical and legal debt advice, with emotional support for individuals. In doing so they fill a policy gap, as mainstream debt advice services and financial literacy programmes tend to focus on the provision of detailed financial advice and largely neglect the emotional needs of debtors. The emergence of these digital spaces can be viewed as an attempt to recast financial literacy and debt advice as more of a 'collective endeavour' (Montgomerie et al., 2014b: 11) rather than just a private matter for individual debtors. From this, the possibility emerges of a more collective political understanding of debt issues and potential responses to it. Montgomerie et al (2014b: 11) found that forum users questioned 'the fairness of certain types of market relation' and highlighted 'asymmetric power relations and relate these not to unfortunate individual circumstances but to more systemic forces.' However, to date, there is no evidence to suggest that this has led to collective action that will fundamentally challenge the inequities inherent in the existing lending system.

Providing cheaper credit

Successive government initiatives have tried to expand the UK credit union sector as a way of tackling financial exclusion and providing a viable alternative to high interest credit. In 2013, the Association of British Credit Unions Ltd (ABCUL) was awarded £38 million to modernise and expand the sector (DWP and HM Treasury, 2013). Poorer people's low usage of credit unions was attributed to lack of awareness (FCA, 2014) and the credit union movement lacking a clear voice and focus (Dobcheva, 2015). In response, the Government sought to reduce the number of trade associations and support the formation of strategic partnerships (HM Treasury, 2014).

However, Sinclair (2014) argues that efforts to expand the sector reveal a conflict about the purpose of UK credit unions, many of which are oriented either towards co-operative self-help or social development and they do not consider helping non-members to be their purpose (Gloukoviezoff, 2014). Furthermore, credit union membership relies on a 'common bond' (usually this is based on geographical, work-related or religious connections), which 'allows credit unions to rely on high levels of trust between members in place of expensive and time-consuming credit checks, and increases the moral pressure on members to repay loans, reducing enforcement costs' (Sinclair, 2014: 405).

Providing small, short-term loans quickly, with minimal bureaucracy to those who need this kind of service, is inherently risky and expensive. Given that the interest rates credit unions can charge for loans is capped at 3 per cent, Alexander, White and Murphy (2015: 21) characterise the larger credit unions as 'able but not willing' to provide this service and the smaller, more socially orientated, as 'willing but not able'. Some also argue that associating credit unions with serving poorer, high-risk borrowers could discourage those who have more to deposit and whose participation is needed if the sector is to also meet the needs of poorer customers (Ryder, 2002; Myers, 2010; McKillop and Wilson, 2011). Gloukoviezoff (2014) assessed the feasibility of providing access to affordable personal microloans for households currently excluded from mainstream lending. He recommended that credit unions should be supported to provide personal microloans by establishing a Financial Inclusion Fund, with the aim of: guaranteeing half the microloans; providing capital; providing revenue to fund part of the administrative costs; and funding for an ongoing evaluation of the scheme. The fund would be managed by an independent body.

Credit unions find it difficult to compete against payday lenders, especially online lenders, who can make loan decisions very quickly (Gathergood et al., 2014). Nevertheless, in 2013, London Mutual Credit Union (LMCU) piloted an alternative. An automated online application infrastructure replicated payday lenders' speed and lack of bureaucracy, while the interest charged was only 26.8 per cent APR (Evans and McAteer, 2013). Nearly 3,000 loans were provided with many of the new borrowers opting to stay with the LMCU and who subsequently accessed longer-term loans. However, the business model required borrowers to have an income of at least £12,000, which excluded the poor members of the community who are most in need of affordable lending alternatives (Hartfree and Collard, 2014). Alternative approaches have involved credit unions 'buying out' the debt of people struggling with high interest loans, so they can be repaid at much lower interest rates (Derbyshire County Council, 2015).

Community development finance institutions (CDFIs) are also not-for-profit organisations that 'lend to businesses and people who struggle to get finance from high street banks' (PricewaterhouseCoopers, 2015: 2). Unlike Credit Unions, CDFIs are not restricted by the 3 per cent interest cap, so technically they have greater flexibility to provide affordable lending products to low-income consumers. However, few CDFIs currently provide personal loans. Financial sustainability is a major issue affecting many CDFIs, with many operating at a loss (PricewaterhouseCoopers, 2015). As a result, considerable investment and support would be needed in the sector to enable them to effectively compete against commercial lenders (Lawrence and Cooke, 2014; Alexander et al., 2015; PricewaterhouseCoopers, 2015; Sakaue and Stansbury, 2015).

Conclusion

Our review indicated that the current policy responses to tackle vulnerability to debt in the UK are too narrowly focused on person-centred preventative financial capability measures, especially financial education, targeted at certain cohorts of the population experiencing problem debt or deemed at risk of over-indebtedness. As Montgomerie et al (2014b: 5) comment: 'Identifying a small population of problem debtors with individual financial problems offers the easiest way for policy-makers to develop targeted but shallow solutions.' Such initiatives have little to offer those whose problems are due to poverty (Willis, 2008) rather than a lack of mathematical skills (Montgomerie et al., 2014b). We found little robust evidence supporting the efficacy of such financial capability policies and it is difficult to avoid the conclusion that overall 'these simply offer more of the same and are effectively no more than a do nothing more policy' (Montgomerie et al., 2014b: 6).

Why does the financial services industry (including payday lenders) enthusiastically support financial education even though in theory more financially astute customers will potentially generate lower profits? Willis (2008) suggests this is to avoid other, potentially more effective debt management interventions such as stronger financial regulation and compliance of lending institutions to protect consumers from exploitative practices (Competition and Markets Authority, 2014). Facilitating earlier access for consumers to financial advice may also be a more effective option (Competition and Markets Authority, 2014), although this is likely to require investment in and better promotion of debt advice services.

The state too, can benefit from shifting accountability to individuals 'for aspects of market governance and social security that it used to provide' (Williams, 2007: 227). Walker et al (2015: 268) describe how 'complex social, political and economic relations have been funnelled into an array of pathologised individuals who require the remediation of a coterie of experts to solve their failure to live lives devoid of feckless and profligate spending', thus distracting attention away from the impact of the politics of austerity. When consumers are encouraged to understand managing debt and financial risk as a matter of individual morality, possibilities for wider systemic change are reduced (Arthur, 2013).

A recent phenomenon to emerge is the growth in online peer-to-peer forums, which challenge this personal responsibility perspective. These forums not only offer debt advice and emotional support but they also enable more collective and systemic understandings of indebtedness to develop, which have the potential to empower those in debt. For instance, Montgomerie et al., (2014b: 12) argue that the kinds of debt advice encountered on such digital platforms can 'invite debtors to become unruly and disruptive, to make life difficult for creditors… in creating problem debt as an issue that can be best solved through collective action…' There is an important caveat however, in that this is dependent on the provision of debt advice becoming a 'political act.' (Montgomerie et al., 2014b: 12). The potential here is that debtors not only develop a more informed understanding of debt issues in a personal context, but they begin to perceive indebtedness more widely as a political issue requiring action to promote major reform of the lending system. Whilst this is clearly a very different response from initiatives that seek to promote acceptance of the norms of existing market rules and processes, the transformative potential of these online spaces has yet to be proven.

Gathergood et al (2014) argue against stringent regulation, as this could make the operation of the short-term loan market more difficult for lenders (i.e. less profitable), which in turn may lead them to restrict the availability of credit to high risk low-income borrowers. Instead, they suggest reforms to the lending market, including developing pathways for low-income consumers so they can access cheaper and long-term forms of credit, allowing them to 'climb the credit ladder' and graduate to better deals. This 'credit enhancement' process would be bolstered by a renewed focused on 'debt alleviation' by improving debt advice and resolution services.

However, Gibbons (2014) argues that this approach essentially accepts the existing system in which the poorest groups must meet the full costs of their own risk and where there is often little difference between payday and mainstream lenders in terms of predatory practices and profiteering. While tighter regulation may initially reduce the harmful impacts of high cost payday lending, the market is likely to adapt, with similar exploitative products emerging over time to fill the void (Gibbons, 2014). The evidence we have uncovered indicates that market-based solutions cannot be made to work for a cohort of low-income high risk borrowers. Nor are not-for-profit or social lenders such as credit unions and CDFIs capable of filling this gap, as they often lack the financial resources and are restricted by their constitutions and financial lending regulations. Consequently, it is evident that the provision of affordable credit to low-income borrowers 'will need to be subsidised in some way - either by the taxpayer; by better off consumers of financial services; or by employers paying decent wages and offering more secure employment' (Gibbons, 2014: no page numbers). Lawrence and Cook (2014) concur with this position, arguing that the objective of policy makers should be to create the conditions where people do not to need to access credit to provide for necessities and living expenses, an outcome that can only be achieved by individuals being in a position to maintain a reliable and decent level of income (Dearden et al., 2010).

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